



Memorandum

TO: City Council

FROM: Mayor Ron Gonzales

SUBJECT: March Budget Message
For fiscal year 2004-2005

DATE: March 17, 2004

Approved:

Date:

INTRODUCTION

Our projected deficit created by the state and nation's prolonged economic downturn seriously threatens the City's ability to provide basic public services, jeopardizes our major initiatives, and limits our ability to stimulate the local economy. Although the situation is very serious, I am confident that we will rise to the challenge with the leadership of the City Council, the support of our employees, and the participation from our community to find solutions.

Preliminary forecasts indicate that the San José General Fund, which supports essential public services including police, fire, parks, and libraries may face a \$76 million shortfall next year due to the prolonged Silicon Valley recession. Our Redevelopment Agency has also experienced a decline in revenue projections in the current fiscal year. The state budget proposed by the Governor could increase the City's projected deficit next year and drastically change the Redevelopment Agency's fiscal outlook, impacting our affordable housing programs, Strong Neighborhood Initiative, and other programs that support neighborhoods, San José businesses and our local economy.

During the special budget study session held in January, the Council heard from the City Manager and the Acting Redevelopment Agency Executive Director to review our General Fund budget deficit projections for FY 2004 2005 and the Redevelopment Agency Capital Improvement Plan. On February 17, the Council adopted my recommendations for moving quickly to implement a budget strategy to make decisions now, not later, to close the projected deficit in the General Fund. We are also scheduled on this same agenda to review the City Manager's recommendations for 100 vacant positions to be cut immediately and shortly will review his recommendations for other early reduction proposals.

The Council as the Redevelopment Agency Board also approved my recommendations to delay action on the proposed CIP until the County Assessor has provided information on this year's assessment rolls and to increase our focus on tax increment generating investments. Together these steps will help ensure that we can continue to have resources available to support strong neighborhoods, affordable housing, and economic development.

BACKGROUND

In accordance with Section 1204 of the San José City Charter, I present my FY 2004-05 Operating Budget Message for consideration by the City Council and the public. The Mayor's March Budget Message is based on several sources. These include my recent State of the City address and previous addresses; budget messages and commitments from the past five years; input from the community and Councilmembers; and the budget strategies approved by Council in February.

This memorandum is designed to give the Manager and Executive Director specific directions to prepare proposals for the Council's budget deliberations in May. The numbers and information in this document should be considered preliminary. More accurate and current information will be included in proposed budgets submitted by Council Appointees. Further Council discussion and additional public hearings will take place before the final budget is presented for adoption in June.

This is the fourth year in a row in which the City is receiving less revenue than in the previous year. In prior recessions including those in the early and mid-1990s we saw the reduction in the growth of revenues, not the actual reduction in revenue collection. The severe recession in Silicon Valley and California underscores the importance of our conservative budgeting over the past several years. We have been smart with taxpayer dollars, making good investments and good decisions to set aside reserves and hold the line on costs. This Council also has been very prudent regarding any expansion of services during better economic times.

The growth in personnel expenses that we face is not entirely driven by projected salary increases or higher employment numbers. Increases include \$30 Million (\$22 million of which is in the General Fund) in higher retirement costs that are mainly the result of lower than expected performance of retirement funds and higher salary growth. The actuary for the Police and Fire Retirement Board is predicting another \$25 million increase in retirement costs in 2006-2007. This is coupled with a \$10 million in increases in benefit costs primarily from health care expected next year.

In these challenging economic times, City Hall must continue to do more with less. As we reduce costs and maintain services, we also must focus on our highest priorities, especially in this time of extremely limited resources. Governing means choosing – and we will have to make some extremely tough choices this year.

Complicating our budget decisions is the looming uncertainty of the state budget crisis and its potential negative impacts on communities throughout California. Until the Legislature and Governor approve the state budget later this year, it is impossible to determine how much of an impact we will feel as a result of Sacramento's decisions. We should anticipate, however, that

the state would again shift a large share of its budget crisis to cities and counties, a deplorable decades old pattern.

Finally, it is necessary for the Mayor and City Council to lead by example. I again ask each Councilmember for recommendations on spending reductions, current-year savings proposals, and other ideas to help reduce the deficit, both from our individual office budgets and from City operations in general. We must show the way and stand with our City staff as we meet this challenge together. Although Mayor and Council office budgets are small compared to the overall General Fund, our cooperation to reduce expenditures can add up enough to save a vital project or an employee's job.

RECOMMENDATION

With this March budget message, I recommend continuing our conservative fiscal strategy that has been successful over the past several years so that we can continue to provide vital services to our community, build strong neighborhoods, balance our budget, stimulate our economy, and to the extent possible, prevent the layoffs of our dedicated employees who diligently serve the people of San José .

I recommend that the City Manager and Executive Director be directed to submit balanced budgets to the City Council guided by the policy direction outlined in this document. They should focus on services and projects that can be reduced or eliminated using a framework of priorities and demand for services. Proposals for budget reductions should be developed with a level of analysis that includes detailed data, justification, and outcomes for Council consideration.

I recommend that the City Council and Redevelopment Agency Board approve the direction to Council Appointees contained in this memorandum in connection with the City Manager's Budget Request for purposes of developing proposed budgets for fiscal year 2004-05.

I further recommend that we approve the City Manager's Budget request consistent with the February Budget direction with the following amendments within the March Budget Message.

General Direction

As in the past, all proposals for either budget reductions or augmentations should be measured against the following criteria:

- Impact on essential public services
- Adherence to Council-approved priorities
- Relative importance to operational efficiency
- Effect on fiscal integrity and flexibility
- Economic impact and jobs

Because of the extraordinary challenge we face, I reemphasize the following general principles approved by Council in past budget actions as we consider our direction to staff for preparing budgets for both the current and next fiscal year:

1. We must focus on protecting our vital core city services for both the short- and long-term.
2. We must explore new revenue sources.
3. We must use our resources strategically to stimulate our local economy and job creation.
4. We must not enter into new commitments that we cannot fund.
5. We must continue to preserve some portion of our reserves for future projected deficits.
6. We should continue to reduce vacant positions, redeploy staff, and as much as possible try to save currently filled positions as a response to our current budget deficit.
7. We must continue to streamline, innovate, and simplify our operations so that we can deliver services at a higher quality level, with better flexibility, at a lower cost.
8. We must be open to alternative ways to deliver services and reduce costs through appropriate community partnerships and public-private partnerships.
9. We must work together with our employee bargaining units to find ways to reduce costs that will limit the number of employee layoffs.
10. We must continue to move in the general direction of setting fees and charges that recover costs of service, but we also must include fee structures that charge higher fees to non San José residents to the extent legally possible.
11. Budget reductions applied to City departments should be applied at generally the same level to our partner community-based organizations that receive General Fund support, with the goal of minimizing the impact on direct services to our residents and businesses.
12. The City Manager shall:
 - a) Develop a proposed budget that is balanced based upon our current revenue expectations and expenditure reductions, assuming no impacts from the state budget.
 - b) Not bring forward any reduction proposals that were explicitly rejected by the City Council last year.
 - c) Develop a prioritized plan of specific budget reductions that should be implemented if and when any state budget impacts are certain. Regardless of the magnitude or

timing of potential state impacts, we can then take steps immediately to further reduce our budget as needed.

- d) Reserve funds in the May 1 budget proposal that are adequate to fund each Appointee's office and the Mayor/City Council Offices, with an across-the-board reduction equal to the average reduction proposed for non-public safety departments.
- e) Maximize reductions to ongoing programs to help solve future deficits to the fullest extent possible.
- f) Recommend fee increases rather than program reductions where raising fees is determined to be legally possible without adverse program impacts and maximum efficiencies can be certified.
- g) Without delay, coordinate and aggressively pursue opportunities for the City (and community-based organizations with technical assistance from the City) to apply for grants to support programs in priority areas.
- h) Avoid budget cuts that would mean we lose grants or cannot leverage other resources.
- i) Include the Council Appointees budget reduction proposals under the Strategic Support CSA for the May 1st budget release.

ASSET ALLOCATION STRATEGIES

I continue to focus on six core priorities for San José that I have outlined in State of the City addresses and that have been endorsed by Council actions and the reorganization of our Council committee structure:

1. Building Stronger Neighborhoods
2. Remaining the Safest Big City in America
3. Helping All Children Achieve
4. Building Better Transportation
5. Driving a Strong Economy
6. Making Government Work Better

As we move forward with the budget process we must always stay focused on the outcomes that are most important for our residents and businesses. I recommend that the City Manager and Redevelopment Agency Executive Director be directed to review all programs including base budget, investment, and reduction proposals to ensure that we are making real progress to achieve our six main priorities.

Finally, all proposals for reductions must specifically quantify the level of service to be provided, the impact on position reductions, and the potential cost savings.

1. Building Stronger Neighborhoods

We must continue to view our role through the eyes of our residents who see the direct impact of services from their driveways. Over the last several years we have made real progress in this direction as the City and residents have worked together to invest time, effort, and resources to improve neighborhoods and make San José a place we are all proud to call home. To move forward with this effort, Appointees are directed to implement the following recommendations:

Abandoned Vehicle Spotter Program Citywide: Abandoned vehicles are neighborhood eyesores. I direct the City Manager to expand the "Vehicle Spotter Program" citywide.

- a. **Anti Graffiti and Anti Litter:** Successful programs that make our community stronger, cleaner, and safer should only be reduced in terms of response time, not volume or quality of service delivery.
- b. **Senior Programs:** Currently 22% of San Joseans are 50 years and older and in the next fifteen years the bay area's senior population (65 and over) will increase by 84%. In order to be careful and thoughtful of the future needs of this growing community we should make a strong effort to maintain basic senior services.

2. Safest Big City in America

San José is the safest big city in America, and San José residents feel safe in their neighborhoods. Additionally, our city now claims the title as one of the most prepared cities for disasters. Regardless of our budget situation, the safety of our residents and businesses must remain our first priority. Appointees are directed to implement the following recommendations:

- a. **Mutual Aid:** Direct the Manager to charge fees to other jurisdictions and entities to the extent legally possible for non-emergency responses to mutual aid in order to recover extra costs incurred by our public safety departments. These charges should encompass services that we provide such as security for dignitary visits in other cities and crowd control assistance during demonstrations.
- b. **Bureau of Fire Prevention:** Direct the Manager to bring forward fee increases to make this a cost-recovery program. Further direct the San José Fire Department to apply re-inspection fees consistently and impose stiff penalties for facilities that continue to have chronic fire safety problems.
- c. **Public Safety Grant Writing:** The City Manager shall evaluate whether one department can handle all grant administration for Police, Fire, and Emergency Services to streamline efforts and reduce costs for all units.
- d. **Research and Development:** The City Manager shall evaluate whether the City Manager's Office Legislative staff could absorb the legislative workload of the Police

Department's Research and Development Division to reduce costs and improve effectiveness.

- e. **Patrol Staff Reductions** – The most essential core service of the Police Department occurs within the patrol division. I recommend that reductions to this unit be implemented only as a last resort to ensure that these essential services continue at current levels as much as possible.
- f. **Cellular 911 Calls:** Develop a strategy to ensure San José is ready to handle the California Highway Patrol transfer of responsibility for cellular 911 calls to local agencies. Direct the City Manager to research other cities' implementation strategies and evaluate opportunities to streamline dispatch and partner with other agencies.
- g. **Fire and Police Academies:** Direct the Manager to review ways to partner with other Santa Clara County jurisdictions to provide police and fire academies and reduce costs.
- h. **Metro cross training:** Direct the Manager to evaluate opportunities to provide cross-training to patrol officers to handle the specialized incidents that the City's METRO Unit provides.
- i. **Police Department Permit Unit:** Direct the Manager to evaluate shifting the permitting responsibilities of the Police Department Permits Unit to the City's Planning, Building and Code Enforcement Department where appropriate and to the Office of Cultural Affairs to handle festival and other event permitting. While this may or may not save money, it would increase efficiencies and make it easier for our customers.
- j. **High Tech Investigations:** The High Tech Investigations Unit, which investigates crimes involving the use of a computer, has a \$1000 threshold for triggering investigations. This threshold should be raised to use Police resources more strategically on costly crimes.
- k. **IPA Annual Report:** The Independent Police Auditor is directed to produce its mid-year and annual reports at a quality level that is less expensive to print and distribute, similar to reports prepared by City Manager's Budget Office and the City Auditor, but still provides the public with concise and useful information.
- l. **Patrol Staffing Software:** Direct the Police Department to utilize its new patrol staffing software to develop alternatives for officer deployment using different scenarios and factors such as shift-starting times and levels of free patrol time to achieve the most efficient use of patrol resources.
- m. **Fire Alternative Apparatus:** Direct the Manager to explore all strategies related to where and what equipment is deployed to reduce costs.

- n. **Hazard Incident Team:** Direct the Administration to evaluate whether the Fire Department should continue the practice of dedicating a centralized Hazardous Incident Team that responds almost exclusively to hazardous materials incidents.

3. Helping All Children Achieve

Even in difficult budget times we must strive to strengthen the role of city government for improving student achievement so that every child in San José can have the opportunity to succeed. Appointees are directed to implement the following recommendations:

- a. **Increase high school graduation rates:** Working with the Mayor's office, direct the City Manager to develop a strategy to better focus our resources and develop community partnerships to identify solutions that keep students learning in school. We must work with existing partners and locate new partners to help students achieve.
- b. **Literacy Programs:** As the merger between the Office of Early Care and Education and the Library Department moves forward, the program should retain its focus on Smart Start while exploring options for partnering successfully with businesses and obtaining grant funding.
- c. **Schools/City Collaborative:** Direct the City Manager to explore alternate ways to fund the Schools/City Collaborative staff position or provide staffing from merged resources.
- d. **Library Service "no holds" on media:** Recommend that the City Manager evaluate making changes to media distribution such as DVD's and VHS tapes to reduce costs to the City.
- e. **Reduction of all Branch Libraries:** If the City Manager brings forward a proposal to reduce branch library operations to only five days per week, he is directed to include a requirement that branches be open on Saturdays and that closure days be rotated among branches. Also, direct the City Manager to evaluate the feasibility of ensuring that if a neighborhood library were closed for the day, the closest library near the closed library would be open. Any proposal to discontinue Sunday hours must describe customer counts for Sunday hours compared to weekday hours.

4. Building Better Transportation

Creating a transportation system that provides safe and efficient access for residents and businesses, enhances our neighborhood streets, and preserves our street infrastructure in the face of a serious deficit is a challenge. We must continue to find creative solutions to provide transportation infrastructure and services despite these difficult budget times. Appointees are directed to implement the following recommendations:

- a. **New Streetlight Technology to Save General Fund dollars:** Direct the City Manager to evaluate implementing new energy efficient streetlight technology that can reduce

General Fund costs, and evaluate contracting alternatives for streetlight installation and maintenance that could increase savings.

- b. **Other Revenue Enhancing Technologies:** Direct the City Manager to evaluate and report back to the City Council other revenue enhancing initiatives, such as installing new parking meters that provide new data technology to monitor parking activities and potentially increase revenues.
- c. **Airport Shuttle:** Direct the City Manager to evaluate the level of service for the Airport Shuttle and evaluate if continued funding for repairs is needed.
- d. **Citation Fees:** Recommend that the City Manager provide a comparison of other city citation fees including cities within the County, and make recommendations for adjusting San José fees based on the findings.

5. Driving a Strong Economy

We continue to make San José the best place in America to do business, work, and live. San José is a statewide leader for creating housing affordable for all income levels. Despite the current recession, we have a remarkably broad and diverse industrial base. Our downtown and neighborhoods offer a full range of exciting, entertainment, cultural, and retail opportunities.

Through prudent planning and a strong and effective economic development effort, the City can have a major impact on economic recovery that will address our budgetary challenges. Appointees are directed to implement the following recommendations:

- a. **Convention Center Expansion:** Direct the Executive Director to return to the City Council with a funding strategy to nearly double the size of our Convention Center by building a temporary structure as soon as possible.
- b. **Downtown Housing Goal:** Direct the Executive Director to return to the City Council with a strategy to create 3,000 more downtown homes over the next five years.
- c. **Expand the Museum of Art and Provide More Retail Space Downtown:** Direct the City Manager, working with the Mayor's office, to return to the City Council with a strategy to help expand the San José Museum of Art by using the former main library. The Executive Director, working with the Office of Economic Development, is directed to develop a plan to attract new retailers to the center of downtown by using existing museum space for retail opportunities.
- d. **Commitment to Affordable Housing:** Direct the City Manager to continue the City's efforts to reach with our goal of 6,000 new affordable homes over the next five years.

- e. **Building Fee Program:** Before adding resources to raise performance targets for permit services to the industry-preferred levels, the City Manager is directed to report back to the City Council with an analysis of industry-preferred levels and the costs and methods for achieving them.

6. Making Government Work Better

We must continue to make San José a user-friendly city that delivers high quality services to residents and businesses by striving for maximum efficiencies. Appointees are directed to implement the following recommendations:

a. **Vehicle Fleet Issues:**

- 1) Review with the Council the City Auditor's recommendation to use mileage reimbursements to employees instead of providing City vehicles when it can reduce costs to the City.
- 2) Ensure that unmarked police vehicles, excluding vehicles for covert operations, are replaced using the same schedule as regular fleet vehicles.
- 3) Rotate all newer marked sedans from special non-patrol units, including the Airport, to the general patrol fleet.
- 4) Start assigning all new marked sedans to the general patrol fleet.
- 5) We should continue to seek all opportunities to reduce costs and achieve greater efficiencies in fleet management.
- 6) Direct the City Manager, working with the City Auditor, to report back to the City Council during the budget process with a total list of the recommended vehicles for elimination and the associated cost savings.

- b. **Cashiering for "Recycle Plus":** We should be consolidating cashier services whenever possible, especially when it allows training to occur before our move to the New Civic Center and allows General Fund savings.

- c. **Fire Inspection Billing Consolidation:** Direct the City Manager to evaluate streamlining and cost savings opportunities through consolidation of fire inspection billing from the Fire Department to Finance/Treasury, as well as other opportunities to reduce costs.

- d. **Business Tax Amnesty:** Direct the City Manager to implement a Business Tax Amnesty Program during next fiscal year.

UPCOMING BUDGET PROCESS

We have a very difficult challenge facing us as we develop this year's budget in the face of reduced revenues and continuing economic uncertainties. Our principal goal will be to maintain our core services, avoid layoffs, and stimulate our local economy as much as possible.

I again call on my colleagues to actively seek proposals and ideas that will help us close our budget deficit by reducing costs, eliminating or deferring projects, or obtaining outside resources from grants and partners. The Manager is directed to provide to Councilmembers a schedule of when ideas would need to be received to accurately estimate the potential savings that would be achieved and the impact on services and the community.

CONCLUSION

The overall goal of this message is to direct Council Appointees to develop their budget recommendations that reflect the policy priorities of the Mayor and Council. I have outlined a strategy that will balance our ability to continue providing basic services to our community, help our economy, build strong neighborhoods, stabilize our budget, and as much as possible, prevent the layoffs of the dedicated employees who serve the people of San José. I urge approval by my colleagues.

COORDINATION

This memo has been coordinated with the City Manager, the Redevelopment Agency Executive Director, and the City Attorney.